Starting Your New Life And Dealing With Money As A Duo

Couples in new relationships often spend hours talking – sharing stories from their childhood, funny anecdotes, as well as their future goals and aspirations. However, until a couple has had an open and honest discussion about money, they don't completely know each other.

Many couples avoid discussing money, yet they often have very strong feelings on the subject and very different philosophies on spending and saving. More importantly, these feelings can be deeply ingrained and not easily changed. It's said that opposites attract, so it's not uncommon for couples to have conflicting attitudes towards money. Not surprisingly, money is often a major cause of conflict for couples, can destroy trust within a relationship and may lead to a break-up or divorce.

While you may not be able to change your partner's philosophy towards money, by talking about your differences openly you should be able to come up with some compromises to keep your relationship intact. Here are a few tips to get the conversation started.

Ask how much before saying "I do"

While you may not want to spoil the romance by comparing credit reports, consider how unromantic it would be to return from your honeymoon only to discover that your new spouse is knee-deep in debt. Engaged couples should have a serious discussion about money long before the ceremony. Talk about what money means to each of you, how much you each earn, and your respective debt levels. And, if either of you is carrying a serious amount of debt, discuss how you plan to address it.

Share responsibilities

There are day-to-day financial issues you'll need to address. As you prepare to join financial forces, figure out who will be responsible for paying the bills. Will you keep separate bank accounts or set up a joint account? If you keep separate accounts, how will you pay for expenses?

Create a budget

No matter how you share expenses, you'll need a budget for your new joint venture. A budget helps you keep track of where your money goes. Calculate your combined monthly income and your fixed expenses (e.g., mortgage, rent, taxes, insurance and loans), variable expenses (e.g., utilities, groceries and credit card payments), and discretionary expenses (e.g., dining out, entertainment, vacations and membership fees). Once you know how your money is being spent, you can look for ways to cut back in order to have more cash for saving and investing.

Decide ahead of time who'll be responsible for tracking spending. While one of you may be better at budgeting, you should both know how your money is being spent. In a pinch, either partner should be able to step in and cover for the other. With a budget in place, you can spend wisely, control debt and save for major purchases and other financial goals.

Discuss money and financial goals

Regularly set aside time to review and discuss your joint finances. Talk about each of your money strengths and weaknesses, and your short- and long-term financial goals. Do you both want to buy a house, save for your children's education, and/or retire early? If one of you is a spender and the other is a saver, talk about the compromises you are willing to make so you'll meet your combined objectives.

Review you investments

Look at your respective investments to see if you have holdings that duplicate each other. If you both have significant holdings in similar investments, you're at risk should the value of these investments plummet. Make sure your combined investments are well diversified and the asset allocation reflects your goals, risk tolerance and time horizon. It is also important to ensure your beneficiary designations on any retirement and Tax-Free Savings Accounts (TSFA) are up-to-date.

Discussing the "what ifs"

How would you manage financially if one of you were to become disabled, incapacitated or die unexpectedly? If you don't know, then you need to talk about developing an estate plan to protect you and your property. At a minimum, your estate plan should include a Will, a continuing Power of Attorney for Property, an End of Life Directive and a Power of Attorney for Personal Care (in Quebec, a "Mandate in case of incapacity" includes the continuing Power of Attorney for Property, End of Life Directive and Power of Attorney for Personal Care). You may need to purchase or increase your life, critical illness and disability income insurance coverage and, if necessary, update the beneficiary designations on your existing policies.

As a couple you may be able to choose between your respective employer health insurance plans. If so, compare the costs and benefits of these health care options to figure out how to effectively coordinate both employers' benefit plans.

Other planning opportunities

Whether you're married or in a common-law partnership, there may be planning opportunities to help you reduce taxes and increase your combined savings. For example, the individual earning a higher income (who pays tax at a higher marginal rate) could pay for as much of your living expenses as possible. This would allow the lower income spouse/partner to save and invest their income. Earnings on these investments would be taxed at their lower marginal rate, reducing your overall tax burden as a couple.

Further, the higher income earning spouse/partner can gift funds to the lower income earner to allow them to contribute to their own TFSA (subject to their personal TFSA contribution limit). Income earned within the spouse's/partner's TFSA will not be attributed back to the higher income earning spouse/partner.

Finally, when preparing your income tax returns, spouses/common-law partners can combine and claim certain items – such as medical expenses or charitable donations – on either spouse's tax return, which can result in a lower overall tax bill for the couple.

Keep talking

Once you have a budget, savings plan and bill payment system in place, you need to continue having money conversations. Set aside some time (at least once a month in the beginning) to discuss how well you're tracking to your budget, and short- and long-term financial goals. That way, if something unexpected comes up, you'll both be familiar with your financial situation.

Not being on the same financial page as a couple can be expensive and could impact your future financial security. Keeping the lines of communication open will help you recognize issues and address them before they become major problems in your relationship.

For more information please speak with your BMO financial professional who can help you develop a financial plan that addresses your financial prioritizes as a couple.

BMO Wealth Management

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